



Transmission Credit Standards and Issues

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Credit Risk--*Defined*

- Credit risk is the degree of uncertainty of one counterparty's ability to fulfill its contractual obligations toward another.
- Credit exposure refers to the losses that could occur to one counterparty if another counterparty were to default in the future.

Pressures on Credit Risk

- Historically, credit risk was low. Utility credit ratings averaged at the 'A-' to 'BBB+' level, everyone was investment grade
- Deregulation brought new participants to the market
- The California energy crisis and Enron's bankruptcy severely impacted the credit ratings of many energy participants (utilities, marketers & generators)
- Traditional practice of assigning open or unsecured credit is becoming more difficult--collateral is now required in most cases



Transmission Credit Standards

- Originally outlined in FERC's *pro forma* Open Access Transmission Tariff (OATT)
- Industry was financially stable
- OATT contained minimal credit (security) provisions
- Language is vague
- Focus is on initial creditworthiness—and not maintenance of creditworthiness
- FERC has since recognized the importance of the financial health of the industry and the role of ensuring sound credit practices



Focus of Recent FERC Filings to Modify the OATT

- Duquesne Light Company – (May 2003)
- Carolina Power & Light Company & Florida Power Corporation – (May 2003)
- Entergy Services, Inc. – (September 2003)
- Established guidance for those seeking to modify the *pro forma* tariff
- Credit exposure is calculated assuming a 90-day period
- Allows use of credit ratings to determine creditworthiness



TVA's Existing Credit Standards

- Based on reasonable credit review procedures in accordance with standard commercial practices
- Centered on investment grade credit rating, or the equivalent thereof
- Otherwise, credit assurance (letter of credit, or alternative security) is required
- Ongoing monitoring of exposure and creditworthiness



Will TVA's Standards Change?

- No changes pending, but we will monitor the industry and adjust accordingly, if warranted
- Improved credit standards protect transmission owners and ratepayers against counterparty default
- Standards must be commercially sound and equitably applied to all
- We must be prudent in the management of these issues

Closing

- “The change from storm and winter to serene and mild weather, from dark and sluggish hours to bright and elastic ones, is a memorable crisis which all things proclaim. It is seemingly instantaneous at last.”

--Henry David Thoreau, (1854) in *The Writings of Henry David Thoreau*, vol. 2, p. 344, Houghton Mifflin (1906).

- Questions...